

# PUERTO RICO RECOVERY BLUEPRINT



FOUR POLICY AREAS COMPILED AS A CRITICAL  
BLUEPRINT FOR THE RECOVERY OF PUERTO RICO



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# INTRODUCTION

The following Puerto Rico Recovery Blueprint was prepared at the request of multiple Members of Congress, following my meetings with Puerto Rican government officials and multiple visits to the island. Here are four policy areas I have compiled as a critical blueprint for the recovery of Puerto Rico:



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# DISASTER RELIEF



**We passed \$19.9 billion for Puerto Rico disaster relief in May of 2018.**

**Additionally, federal agencies announced over \$30 billion in eligible relief funding for the island. However, the Puerto Rican government has stated it has only received \$2.3 billion of the over \$50 billion in available federal funds more than a year after Hurricane Maria.**

**This funding has been slow to be deployed primarily because of Acting Chief of Staff/OMB Director Mick Mulvaney for several reasons:**

# DISASTER RELIEF

- 1** Alleged “concerns” about Puerto Rico’s ability to manage these funds in light of their prior debt issues. This results in onerous planning and disclosure requests that are not required for states requesting similar relief. This hold up could be a violation of the Impoundment Act;
- 2** Nonsensical cost sharing requirements demanded of Puerto Rico despite its budget crisis;
- 3** FEMA’s failure to recognize Puerto Rico’s more flexible land title laws in approving claims;
- 4** Stafford Act Section 428 – the Administration forced Puerto Rico into an “optional” Alternative Procedures Pilot Program for Permanent Work related to cost estimates. If costs are below estimate, the savings are retained by Puerto Rico. However, if costs exceed estimate, Puerto Rico must pay the additional costs without further FEMA assistance. Forcing Puerto Rico into the program sets them up to shoulder all cost overruns, which likely will add to their debt, and violates the Disaster Recovery Reform Act of 2018 (DRRA).

## PLAN OF ACTION

- ➔ Holding critical oversight hearings to put pressure on the Administration;
- ➔ Passing reforms related to cost sharing, FEMA title recognition, and potentially Sec. 428, among other reforms; and/or
- ➔ Filing suit for violation of Impoundment Act and DRRA.

# ECONOMIC DEVELOPMENT

Colonial period Puerto Rico was a small farm, agrarian economy. When the United States conquered Puerto Rico, American companies seized large tracts of land that were forfeited by locals, who could not afford onerous, new taxes. In 1976, Puerto Rico experienced a manufacturing boom with the passage of Sec. 936, allowing U.S. corporations on the island to pay lower Puerto Rico taxes in lieu of federal taxes. In 1996, the exemption was set to phase out over 10 years. This caused a recession in 2006 that is still ongoing. The recession was further exacerbated by Hurricane Maria, and the recent GOP Tax Plan, which increased Puerto Rico's export taxes.

The island has a strong manufacturing base making up 46.3% of its total GDP. However, agriculture (0.6%) and energy sectors (under 2%) are woefully small and have great potential for long term economic growth. There have been other recommendations made regarding establishing economic opportunity zones and Jones Act reforms.



## PLAN OF ACTION

- Holding critical oversight hearings regarding the foregoing; and
- Passing reforms to repeal new export taxes, boost agriculture and renewable energy sectors, establish economic opportunity zones, and make potential adjustments to the Jones Act, among other reforms.

# PROMESA/DEBT REFORM

In 1984, Puerto Rico was removed from Ch. 9 of the bankruptcy code. As a result of the ongoing 2006 recession, Puerto Rico accumulated over \$74 billion in debt (with \$49 billion of unfunded pension liability). Puerto Rico's Pre-Maria 2017 budget was \$9.1 billion. Its post-Maria budget is \$25 billion, but this includes disaster relief funds. Much of the remainder of the debt has been bought and sold at a discount to investors seeking to profit off these distressed assets. Puerto Rico is not a state, so it has no sovereign immunity from creditors, nor was it able to file bankruptcy to seek debt relief.

In 2016, Congress passed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) which created an oversight board and gave it new, limited bankruptcy debt relief options. The unelected fiscal board has exercised broad power over the Puerto Rican government to approve its budget, advocate in bankruptcy court and promote economic development measures. The current fiscal board has been criticized for high expenses.

Overall, the board has primarily utilized an austerity strategy, except for its recent request to invalidate \$6 billion of the \$74 billion debt in bankruptcy court.

## PLAN OF ACTION

- Holding critical oversight hearings regarding the foregoing; and
- Passing reforms to amend PROMESA or give Puerto Rico Ch. 9 eligibility in the alternative, require an audit of the debt, amend bankruptcy code regarding bond holder priority status, among other reforms.

# MEDICAID REFORM



Puerto Rico has a higher poverty rate than any state. If Puerto Rico were a state, the federal government would pay 83% of its Medicaid costs under the current formula. However, as a territory, the island only receives nearly 55% cost sharing from the federal government. Part of Puerto Rico's large debt is attributed to borrowing to fund its share of the Medicaid Program. The island is not eligible for the Affordable Care Act's exchanges or Medicaid expansion, but did receive a block grant as part of that legislation.

Puerto Rico is stuck in a vicious cycle where it eventually runs out of funds and faces the "Medicaid Cliff."

Congress has routinely passed additional block grants as short-term measures, without addressing the problem long-term. This includes the most recent \$4.9 billion grant, which will run out over the next 2 years.

Medicaid uncertainty and shortfalls have wreaked havoc on their healthcare system: resulting in thousands of patients being left without sufficient access to care, nearly 6,000 of Puerto Rico's 15,000 doctors leaving the island over the past 10 years, and hospitals left in disrepair due to insufficient funding. Hurricane Maria has exacerbated the destruction of Puerto Rico's healthcare infrastructure.

## PLAN OF ACTION

- ➔ Holding critical oversight hearings regarding the foregoing; and
- ➔ Passing reforms to create a sufficient, permanent Medicaid formula for Puerto Rico (and possibly other territories), boost recruitment of doctors to the island, and increase hospital reconstruction funding.